

## Global Minimum Tax

In July 2021, more than 130 countries agreed to support an OECD tax reform framework to impose a global corporate minimum tax on large multinational corporations' overseas profits.

OECD framework is intended to discourage nations from tax competition through lower tax rates that result in corporate profit shifting and tax base erosion (Base erosion and profit shifting – BEPS).

To fix this issue, OECD proposed a two-pillar solution:

- Pillar 1 is focused on changing where large companies pay taxes;
- Pillar 2 includes the global minimum tax

**Pillar 1** contains "Amount A" which would apply to companies with more than Euros 20 billion in revenues and a profit margin above 10 percent. For those companies, a portion of their profits would be taxed in jurisdictions where they have sales; between 20 percent and 30 percent of profits above a 10 percent margin may be taxed. After a review period of seven years, the 20 billion euros threshold may fall to 10 billion euros.

### **Pillar 2 consists of:**

- Global anti-base erosion rules (GloBE):
  - An Income inclusion rule (IIR), which imposes top-up tax on a parent entity in respect of the low taxed income of a constituent entity;
  - An Undertaxed payment rule (UTPR), which denies deductions or requires an equivalent adjustment to the extent the low tax income of a constituent entity is not subject to tax under an IIR
- A treaty based rule (the subject to tax rule (STTR)) that allows source jurisdictions to impose limited source taxation on certain related party payments subject to tax below a minimum rate. STTR will be creditable as a covered tax under the GloBE rules
- GloBE rules will apply to Multi-national enterprises (MNEs) that meet the 750 million euros threshold as determined under BEPS Action 13 (country-by-country reporting). Countries are free to apply the IIR to MNEs headquartered in their country even if they do not meet the threshold.
- The minimum tax rate used for purposes of the IIR and UTPR will be at least 15%.

OECD's goal to finalize the terms of the agreement in October 2021, followed by development of model legislation, a multilateral instrument and detailed guidance in 2022 and then implementation of global minimum corporate tax rate in 2023.

*If you would like to discuss any tax related matters please drop us an email at [info@premier-brains.com](mailto:info@premier-brains.com) or call us at + 971 4 3542959.*

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